

Message Text

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TO AMEMBASSY MBABANE

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TAGS: BPRO, EFIN, WZ

SUBJECT: EXIMBANK POLICY

REFERENCES: (A) MBABANE 1578; (B) MBABANE 2724;
(C) STATE 156185

1. REGRET DELAY REPLYING REFTEL A, WHICH RAISES BASIC
QUESTIONS REGARDING EXIMBANK'S ROLE AND ITS EVALUATION OF
SWAZILAND.

2. EXIMBANK DOES ATTEMPT TO UNDERSTAND CURRENT DEVELOP-
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MENT POLICY AMONG DONOR COMMUNITY. BANK IS NOT, HOW-
EVER, AN AID AGENCY, AND ITS LENDING IN SUPPORT OF US EX-
PORT SALES IS NOT DESIGNED TO PROVIDE BENEFITS TO
BORROWER. EXIM CREDITS CARRY MARKET-RELATED INTEREST
RATES NOW RANGING BETWEEN 7.75 AND 8.75 PERCENT, AND COM-
MERCIAL BANK PARTICIPATION AT EVEN HIGHER RATES IS
NORMALLY REQUIRED. SMALLER SUPPLIER CREDIT GUARANTEES AND
INSURANCE GO FORWARD AT COMMERCIAL RATES. THUS EXIM-
SUPPORTED CREDITS ARE GENERALLY CONSIDERED EXPENSIVE FOR

THOSE DEVELOPING COUNTRIES FOR WHICH BORROWING AT CONCES-
SIONAL RATES IS APPROPRIATE.

3. EMBASSY REFERENCE TO US INVESTMENT DOES NOT DIRECTLY
RELATE TO EXIMBANK POLICY, SINCE EXIMBANK IS A LENDING

AGENCY, DOES NOT TAKE EQUITY PARTICIPATIONS IN PROJECTS,
AND DOES NOT INSURE OR OTHERWISE GUARANTEE THE EQUITY
PARTICIPATION OF US INVESTORS IN FOREIGN PROJECTS.

4. IN ADDITION TO ABOVE LIMITATIONS ON EXIMBANK'S ROLE
WORLDWIDE, AS WELL AS ADDITIONAL LEGAL RESTRICTIONS IN-
CORPORATED IN ITS CHARTER, EXIMBANK FUNCTIONS AS A
SELF-SUSTAINING INSTITUTION, REQUIRING NO APPROPRIATED
FUNDS AND COVERING ITS COST OF BORROWING, ADMINISTRATIVE
EXPENSES, AND ALL NECESSARY ADDITIONS TO RESERVES TO
COVER DEFAULTS, FROM THE INTEREST AND FEES COLLECTED.
EXIMBANK HAS AT THIS TIME NO EXTRAORDINARY FUNDS TO SUB-
SIDIZE INTEREST RATES FOR DEVELOPING COUNTRIES, NOR DOES
IT HAVE A SPECIAL FACILITY FOR LOANS ENTAILING HIGHER
THAN NORMAL RISK. FOR THIS REASON THE BANK'S COUNTRY
JUDGMENTS MAY SOMETIMES APPEAR CONSERVATIVE, ALTHOUGH
LESS CONSERVATIVE THAN COMMERCIAL BANKS, SINCE EXIM CON-
TINUES TO TAKE RISK WHICH COMMERCIAL BANKS ARE UNWILLING
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TO ASSUME. IN PARTICULAR, COMMERCIAL BANKS ARE GENERALLY
UNWILLING TO TAKE EXPOSURE IN THE 5 TO 10 YEAR BAND IN
DEVELOPING COUNTRIES, THE TYPE OF EXPOSURE WHICH EXIMBANK
IS MOST OFTEN CALLED UPON TO ASSUME.

5. GIVEN THESE LIMITATIONS, EXIMBANK HAS RESERVATIONS
ABOUT THE EXPOSURE IT IS WILLING TO ASSUME IN SWAZILAND.
THE BANK HAS NO PAST EXPERIENCE WITH THE GOVERNMENT OF
SWAZILAND AS A BORROWER OR GUARANTOR. EXIM HAS NOT RE-
CEIVED ANY ACTUAL APPLICATIONS FOR PROJECTS IN SWAZILAND
IN SEVERAL YEARS, AND ACCORDINGLY HAS NOT RECENTLY
CONDUCTED A FULL COUNTRY SURVEY. THE EMBASSY'S COMMENTS
CONCERNING SWAZI RESERVES AND PARTICULARLY THOSE ON THE
COUNTRY'S INTERNATIONAL REPUTATION ARE APPRECIATED. EXIM
IS CONCERNED, HOWEVER, ABOUT THE EXTENT TO WHICH
SWAZILAND'S FOREIGN EXCHANGE RECEIPTS ARE COMPOSED OF
WORKERS' REMITTANCES AND CUSTOMS UNION REVENUES WHICH ARE
DEPENDENT ON SOUTH AFRICA. WE BELIEVE THAT THE EXIM
POSITION IN REF C REMAINS VALID FOR THE PRESENT. RE-
ASSESSMENT OF THAT POSITION WOULD PERHAPS BE MORE FRUIT-
FUL WHEN AN ACTUAL LARGE TRANSACTION ARISES WHICH WOULD
PERMIT A FOCUSSED DISCUSSION OF THE RELATIONSHIP OF
COUNTRY CONDITIONS TO EXIM'S REPAYMENT PROSPECTS ON THE
PROPOSED CREDIT.

6. WE HOPE THIS WILL CLARIFY BACKGROUND TO REF C AND PREVIOUS.

7. EMBASSY'S ASSISTANCE IN ASSESSING APPLICATION FOR SUPPLIER CREDIT COVER FOR SALE OF REEFERS TO RSMC MUCH APPRECIATED. EXIMBANK IS NOW INFORMED THAT US SUPPLIER HAS SECURED THE SALE WITHOUT EXIM GUARANTEE. CHRISTOPHER

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